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GENESCO Inc. Annual Report 1974

GENESCO The Apparel Company

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Annual Meeting of Stockholders
First Monday in December

Corporate Offices
111 Seventh Avenue, North
Nashville, Tennessee 37202
615 747-7691

730 Fifth Avenue
New York, New York 10019
212 582-9090

Transfer Agents
Common Stock and Preferred Stock
Morgan Guaranty Trust Company
New York, New York 10004
First American National Bank
Nashville, Tennessee 37202

Registrars
Common Stock and Preferred Stock
Chemical Bank
New York, New York 10004
Third National Bank
Nashville, Tennessee 37202

Cable Address
GENCORP

Telex Numbers
Nashville, Tennessee 55 4423
New York, New York 12 6814
Zurich, Switzerland 845 52503

New York Stock Exchange Symbol
GCO

Financial Highlights

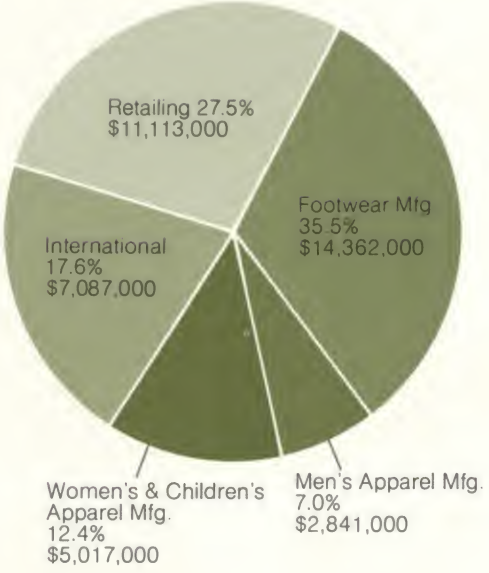
YEAR ENDED 31 JULY

	1974	1973
Net sales—continuing operations	$1,184,727,000	$1,224,550,000
Earnings after taxes—continuing operations	17,128,000	14,491,000
Primary earnings per common share—continuing operations	$1.07	$ .85
Earnings before extraordinary loss	17,128,000	2,720,000
Extraordinary loss net of taxes	—0—	(55,623,000)
Net earnings (loss)	17,128,000	(52,903,000)
Primary net earnings (loss) per common share	$1.07	$(4.54)

1974 Net Sales from Continuing Operations*
By Major Business Category

*Before elimination of intercompany & non-consolidated international sales

1974 Pretax Earnings from Continuing Operations*
By Major Business Category



*Before consolidating eliminations & non-allocated corporate expenses

To Our Stockholders:

I am pleased to report that significant progress has been made in the first full year of our efforts to rebuild GENESCO's earnings. Despite some of the worst economic conditions in many years, including high interest rates and record inflation, GENESCO produced net earnings of $17,128,000 or $1.07 per common share in fiscal 1974, compared with a net loss of $52,903,000 or $4.54 per common share in fiscal 1973.

As I said last year, the potential of the corporation can best be measured by examining the results of continuing operations – which, of course, is where GENESCO's future lies. By that standard, 1974 was definitely a year of substantial progress with net earnings of $17,128,000 or $1.07 per common share compared with $14,491,000 or $0.85 per share in fiscal 1973 for an increase of 26% in per share earnings. 1974 net sales of $1,184,727,000 compare with $1,224,550,000 in fiscal 1973.

This year's results are especially significant because they demonstrate tangible evidence of the effectiveness of our program for improving profits announced last year. That program included:

1. A major restructuring of the corporation to eliminate the continuing drain on earnings created by certain problem operations with limited future potential.

2. A continuing review and pruning of operations which are not producing or which have limited future potential.

3. Expansion of high potential operations.

4. Reduction of expenses.

5. Implementation of a new organization structure.

6. Placement of experienced executives in key management positions.

In this year's Annual Report, I want to outline our progress in implementing each step of this program.

Restructuring Program

The first major step in our program was the decision to sell, close, or restructure a number of operations which were losing money and offered little potential for improvement. To cover anticipated losses from these actions, we established a reserve of $60 million in July 1973. To date we have accomplished the following:

• Out of 136 S. H. Kress stores scheduled for closing, 130 have been closed. The progress of the remaining Kress stores is gratifying. In spite of the disruptions normally associated with the closing of so many stores, the Kress organization produced a sales increase of 13% in the continuing stores since the beginning of the 1974 calendar year. Sales of these stores are currently running at an annualized rate of $120 million, compared with a $150 million rate for the full chain in fiscal 1973.

Major reductions have been or are being made in the central overhead structure of Kress to bring expenses in line with the reduced scope of operations. As a result, the continuing Kress stores are now operating at breakeven, as opposed to a $9 million pretax loss last year for the total chain.

Efforts to sell the entire chain in its original form were not successful. Interest is being shown, however, in the restructured Kress operation.

• Out of 103 women's footwear stores and leased departments scheduled for closing, 101 have been closed.

The remaining 164 women's footwear retail units showed substantial earnings improvement for the fiscal year.

• In Europe, where the business climate has continued to deteriorate, we significantly reduced our operations. Our Italian operation, Confezioni Sanremo, was taken over by an agency of the Italian government. Five additional European subsidiaries were either sold or liquidated.

• The Style-Knit plant in Greensboro, North Carolina was closed and the machinery transferred to Lebanon Knitting Mill, a double-knit producer, which represents GENESCO's continuing activity in the knitting business. The Kingsboro Mills plants in Nashville and McMinnville, Tennessee were closed and inventories and equipment liquidated. The Nashville building was converted to a warehouse for Johnston and Murphy shoes, now experiencing rapidly growing consumer demand.

All of this restructuring, the extensive store closings and disposal of European operations have been accomplished within the limits of the reserve. No additional reserves or write-downs were taken in fiscal 1974, and none is contemplated. As a direct result of this restructuring program we eliminated pretax losses which amounted to $18,204,000 in 1973.

Pruning of Continuing Operations

Weeding out the operations covered by the reserve was an immediate necessity. But I also told you that we would continue to examine our continuing operations, concentrating on those with the greatest profit potential. During the year we closed 151 additional retail stores and leased departments. We also sold four manufacturing divisions which did not fit in with our long range plans. This action had no significant effect on fiscal 1974 earnings, but it did free up capital to be invested in other operations with greater profit potential.

Expansion of High Potential Operations

Last year it was noted that many GENESCO operations were performing well and that we planned to expand them. In fiscal 1974, we completed or initiated the expansion of manufacturing capacity in several plants and opened 131 new retail stores and leased departments.

Expense Reduction

As stated in last year's Annual Report, we budgeted a 13% reduction in central administrative expenses for fiscal 1974. In the face of unprecedented inflation, we were able to achieve this goal. The 1975 budget provides for further reductions amounting to 8%. In addition, with the help of our directors, we were able to anticipate the current decline in economic activity and to embark on an extensive expense reduction program throughout the corporation. As a result, total company expenses were more than $18 million below fiscal 1973, dropping from 26.2% of sales last year to 25.6% of sales this year.

New Organization

We previously announced the installation of a new organization structure designed to more clearly establish responsibility and accountability. This new structure has been completely implemented and is working smoothly at every level. One benefit of this new structure has been a high level of morale and unity throughout the company.

Experienced Executives

One of the most important aspects of our program for profits was a commitment to place experienced merchandising and marketing executives in key management positions. In fiscal 1974 we promoted or brought in 22 marketing or merchandising executives, each with a record of successful operation. At the same time, however, we reduced the total number of management personnel by 393.

In summary, we are *on target* in each of the six areas of our program for improving profits. In some areas there are still specific steps to be completed, and other areas will continue to require attention. But it now seems clear that GENESCO's earnings decline has been halted, and that we are headed back in the right direction.

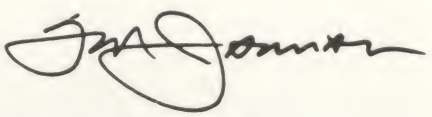
Future Outlook

We enter fiscal 1975 with our operations in a strong competitive position. A more detailed report on the operations in each of our five areas of business follows the Financial Review section.

The prospects for our nation's economy are not certain, and the economists currently do not paint an encouraging picture. We must expect continued high inflation, high interest rates, and slow economic activity. In this climate, GENESCO's strategy is to continue to offer better products, values, and service to our customers and to keep our operations lean and tight, holding costs and expenses down everywhere possible and allocating capital to those areas offering the greatest return. We were able to improve our earnings under these conditions in fiscal 1974, and we are geared up to continue to do so in fiscal 1975.

As I have stated several times, one of our primary goals is to be able to resume the payment of a dividend on our common stock. This year's results were a vital step in that direction. Although we have not yet reached that goal, the significant progress to date is a clear indication that we are well on our way.

GENESCO's fiscal 1974 results could not have been achieved without the renewed spirit and dedication of all our employees. The wise counsel and support of our directors also contributed immeasurably.



Franklin M. Jarman
Chairman, President and
Chief Executive Officer

OPERATIONS

GENESCO's business falls into five major areas of apparel operations: retailing, footwear manufacturing, men's apparel manufacturing, women's and children's apparel manufacturing, and international operations. In addition, the retail operations can be broken down into the subcategories of footwear and apparel. Commentary regarding the current condition and future outlook for operations in each of these five areas immediately follows the Financial Review. The following comments apply to consolidated operating results of continuing operations.

Net Sales

Net sales from continuing operations for 1974 were $1,184,727,000 compared with $1,224,550,000 in 1973. Net sales of the major business areas are summarized as follows (in thousands):

	1974	1973
Retailing operations	**$ 441,319**	$ 438,488
Footwear	**163,867**	169,087
Apparel	**277,452**	269,401
Manufacturing operations	**800,239**	858,750
Footwear	**305,082**	362,697
Men's apparel	**240,733**	236,554
Women's & children's apparel	**254,424**	259,499
International operations	**186,266**	169,475
Total	**1,427,824**	1,466,713
Less intercompany & nonconsolidated international sales	**243,097**	242,163
Consolidated net sales from continuing operations	**$1,184,727**	$1,224,550

As part of the company's program of reallocating capital from operations with limited potential to those with greater long-term profit potential, four manufacturing companies were sold during fiscal 1974.

Sales of these divested companies are included in the above business category breakdown as follows (in thousands):

	1974	1973
Manufacturing operations	**$12,975**	$74,414
Footwear	**3,511**	60,047
Men's apparel	**9,464**	14,367
International operations	**5,691**	5,112
Total	**18,666**	79,526
Less intercompany & nonconsolidated international sales	**7,899**	47,979
Net sales of companies divested in 1974	**$10,767**	$31,547

Excluding the net sales of divested companies, consolidated net sales for 1974 were $1,173,960,000 compared with $1,193,003,000 in 1973, a decrease of 1.6%. This decrease occurred at the manufacturing level and was due primarily to the reluctance of retailers to build inventories under current economic conditions. Retail net sales were up 0.6% in 1974.

Gross Margin

Gross margin improved from 30.2% of sales in 1973 to 30.8% in 1974. This improvement is attributable to improved merchandising techniques and the pruning of unprofitable product lines. The improvement in gross margin would have been even greater if not for the unfavorable impact of price controls on Footwear manufacturing and distribution operations. Price increases on fall sales were rolled back by the price freeze announced on 13 June 1973. Price Commission approval of these cost justified increases was delayed until 29 October 1973. Consequently, the prices on the majority of first quarter footwear shipments did not reflect increased raw material and labor costs. As a direct result of this delay, pretax earnings were adversely affected by approximately $1 million.

Selling, Administrative and General Expenses

In spite of record inflation, the company's selling, administrative and general expenses decreased $18,110,000 or 5.6% from last year. Anticipating the current decline in economic activity, the company embarked on an extensive expense reduction program in the fall of 1973. As a result, total expenses were $302,939,000 or 25.6% of sales in 1974 compared with $321,049,000 or 26.2% in 1973. Heavy emphasis will continue to be placed on overall expense control.

Interest Expense

The most significant adverse factor affecting 1974 net earnings was the unprecedented increase in interest rates. GENESCO's weighted average short-term interest rate in 1974 was 10.0% compared with 6.1% in 1973, an increase of 63.9%. Although average borrowings were lower than 1973, interest expense was up $7,469,000 or 43.2%. On an after tax basis this increase in interest expense is equal to $.31 per common share.

Interest expense includes interest payments to GENESCO Financial Corporation (GFC), a wholly-owned nonconsolidated subsidiary. These interest payments are designed to cover GFC's fixed charges at least 1.5 times. GFC's pretax income of $4,004,000 in 1974 and $2,440,000 in 1973 is credited against interest expense. The net effect of this treatment is to show the interest expense of GFC as part of GENESCO's total interest expense just as it would be if GFC were a consolidated subsidiary.

Depreciation and Amortization

Depreciation and amortization (including amortization of lease rights) from continuing operations was $16,545,000 for 1974 compared with $14,375,000 in 1973.

Pretax Earnings

Pretax earnings from continuing operations were $34,606,000 in 1974 compared with $29,335,000 in 1973. Classification of pretax earnings by major business area is summarized as follows (in thousands):

	1974	1973
Retailing operations	**$11,113**	$12,458
Footwear	**8,390**	9,748
Apparel	**2,723**	2,710
Manufacturing operations	**22,220**	12,669
Footwear	**14,362**	13,463
Men's apparel	**2,841**	(4,293)
Women's & children's apparel	**5,017**	3,499
International operations	**7,087**	6,334
Total	**40,420**	31,461
Consolidating eliminations and nonallocated corporate expenses	**(5,814)**	(2,126)
Pretax earnings from continuing operations	**$34,606**	$29,335

The pretax earnings shown for each of these business categories have been reduced by a charge representing its pro rata share of corporate financial and administrative expenses. This charge is made to individual operating divisions by applying a percentage generally approximating the prime interest rate to the operating division's average investment in accounts receivable, inventories, and depreciated fixed assets.

In view of the uncertain outlook for interest rates during 1974, management elected not to increase the central charge with the frequency required to keep pace with the rapid increases in the prime rate. This resulted in greater central absorption of 1974 financial expense and accounts for the change in consolidating eliminations and nonallocated corporate expenses from $2,126,000 in 1973 to $5,814,000 in 1974.

Net Earnings

Net earnings were $17,128,000 in 1974 compared with 1973 results of $2,720,000 before extraordinary items and a loss of $52,903,000 after extraordinary items. On the basis of continuing operations, 1974 net earnings of $17,128,000 compare with $14,491,000 in 1973 for an increase of 18%.

Primary earnings per common share were $1.07 in 1974 compared with the 1973 loss of $.09 before extraordinary items and the $4.54 loss after extraordinary items. On the basis of continuing operations, 1974 earnings per common share of $1.07 compare with $.85 in 1973 for an increase of 26%.

Primary Earnings Per Common Share Computation (in thousands except for per share amounts):

	1974	1973
Net earnings from continuing operations	**$17,128**	$14,491
Less preferred dividends	**3,721**	3,906
Net earnings available to common stock	**$13,407**	$10,585
Average common and common equivalent shares	**12,545**	12,509
Primary earnings per share – continuing operations	**$1.07**	$.85

Quarterly Results

Quarterly results of continuing operations (unaudited) for fiscal 1974 and 1973 are as follows (in thousands except amounts per share):

	3 Months October	3 Months January	3 Months April	3 Months July	Fiscal Year
Net sales					
1974	**$314,329**	**$309,827**	**$292,418**	**$268,153**	**$1,184,727**
1973	321,848	320,681	307,387	274,634	1,224,550
Earnings (loss) before taxes					
1974	**15,883**	**13,467**	**6,372**	**(1,116)**	**34,606**
1973	16,550	12,526	5,923	(5,664)	29,335
Earnings (loss) after taxes					
1974	**7,833**	**6,672**	**3,142**	**(519)**	**17,128**
1973	8,191	6,191	2,893	(2,784)	14,491
Primary earnings (loss) per common share					
1974	**$ .55**	**$ .46**	**$ .17**	**$ (.11)**	**$ 1.07**
1973	.58	.41	.16	(.30)	.85

FINANCIAL CONDITION

Accounts Receivable

GENESCO sells certain of its accounts receivable to GENESCO Financial Corporation (GFC), a wholly-owned nonconsolidated subsidiary, at the outstanding balance less a 10% reserve for uncollectable accounts. The receivable amounts in the consolidated balance sheet are net of amounts financed with GFC and other financial institutions. Accounts receivable before financing are shown as follows (in thousands):

	1974	1973
Net accounts receivable per balance sheet	**$ 39,711**	$ 44,093
Add amounts financed	**139,876**	130,921
Total accounts receivable	**179,587**	175,014
Less accounts receivable of discontinued operations	**3,124**	3,865
Accounts receivable of continuing operations	**$176,463**	$171,149

Accounts receivable of continuing operations have been reduced by allowance for bad debts and cash discounts amounting to $9,383,000 in 1974 and $9,179,000 in 1973. The accounts receivable turnover of continuing operations based on the average accounts receivable balances during the year was 6.2 in 1974 compared with 6.3 in 1973. Although the turn is slightly reduced, the high quality of receivables has been maintained. During this period of tight money and high interest rates, many businesses have delayed payments to their vendors.

Inventories

Inventories are classified as follows (in thousands):

	1974	1973
Continuing Operations		
Retail Merchandise	**$ 95,306**	$ 90,803
Finished Products	**64,831**	62,057
Work in Process	**32,053**	35,842
Raw Materials	**57,608**	54,933
Total Continuing Operations	**$249,798**	$243,635
Discontinued Operations	**28,751**	32,839
Total Inventory	**$278,549**	$276,474

On the basis of continuing operations, inventory turnover (annual sales ÷ average monthly inventory at balance sheet value) was 4.5 in 1974 compared with 4.8 in 1973. The decline in inventory turnover is attributable primarily to inflation and the stockpiling of certain strategic raw materials in anticipation of shortages. Although unit inventories have remained relatively flat, the inflationary cycle has resulted in higher dollar inventory values.

Working Capital

Total working capital of $247,191,000 represents an increase of $3,384,000 from 1973. Factors accounting for this increase are shown on page 24.

At 31 July 1974, the current ratio was 3.2 compared to 3.0 at 31 July 1973.

Short-Term Borrowing Arrangements

At 31 July 1974, bank lines of credit of $276,450,000 with 50 commercial banks were available to either GENESCO and/or GENESCO Financial Corporation (GFC). Of this amount $232,450,000 is with 44 U. S. banks, $18,000,000 with 4 Canadian banks, and $26,000,000 with 2 European banks. Borrowings are usually for ninety day periods and are at the U.S. and Canadian banks' prime rate effective on the date loans are made. European bank rates are based on the interbank rate. Arrangements with U.S. and Canadian banks provide that the company will endeavor to maintain collected funds on deposit in each bank which, over a calendar year, will average 18-20 percent of the line of credit. No compensating balances are maintained in connection with the European lines; however, a commitment fee of ½ of 1% on the unused portion of the line is paid. No minimum deposit is required at any time on any of the bank lines. At 31 July 1974, GENESCO had no short-term notes outstanding. GFC had bank notes of $68,550,000 outstanding, with a weighted average interest rate of 12.0%. During the year, borrowings by GENESCO and GFC averaged $151,000,000 at a weighted average interest rate of 10.0%. The maximum borrowing at any month end during fiscal 1974 was $182,000,000. Following customary practice, GENESCO had sold $12,000,000 of accounts receivable to two banks at 31 July 1974. Agreement was made with these banks that their credit line would not be used to the extent such receivables were outstanding. The unused lines of credit available to GENESCO and GFC amounted to $195,900,000 at 31 July 1974.

Future Tax Benefits

Operating losses in certain corporations and the establishment of the $60 million reserve have resulted in substantial tax carryforward benefits which will be used to offset taxes otherwise payable on profits earned in the future. These future tax benefits are recognized as assets on the consolidated balance sheet as follows (in thousands):

	1974	1973
Current assets	**$22,000**	$21,500
Noncurrent assets	**29,369**	41,172
Total	**$51,369**	$62,672

The majority of the net operating loss carryforwards creating these future tax benefits expire during the years 1977-1980 and management feels their utilization is assured beyond a reasonable doubt.

Capital Expenditures

Capital expenditures were originally budgeted at $23,540,000 for 1974. However, in view of the uncertain economic conditions and the high cost of capital, action was taken early in the year to substantially reduce planned expenditures. As a result actual capital expenditures in 1974 were $17,699,000 compared with $23,104,000 in 1973. The preliminary 1975 capital expenditure budget is $18,300,000. Actual 1974 expenditures, as well as budgeted expenditures for 1975, have been limited to expansion programs with above average return and those absolutely necessary to maintain existing facilities and equipment at competitive levels.

Restructuring Program

In July 1973 an after tax reserve of $60,146,000 was established to provide for anticipated losses involved in the sale, restructure or discontinuance of unprofitable operations. The plan approved by the board of directors has been implemented except for the closing of 6 S.H. Kress stores and 2 women's footwear retail stores. All of this action has been accomplished within the limits of the reserve. Efforts to sell the S.H. Kress chain in its original form did not produce tangible results, but interest is being shown in the restructured Kress operation.

The provision for discontinuance totaling $25,642,000 at 31 July 1974 will be used to cover continuing lease payments, net of sublease income, on stores already closed and to complete the restructuring program as outlined above. In the opinion of management, the provision is adequate to cover all future costs anticipated at this time.

Dividends

Total dividends paid on preferred stock were $3,721,000 in 1974 and $3,906,000 in 1973. No common dividends were paid in 1974. Omission of the common dividend in July 1973 was a necessary step in view of the $60 million reserve established at 31 July 1973. Resumption of the common dividend at the earliest possible date is a top priority objective when permitted by the restrictive covenants of loan agreements and justified by consistent earnings performance. At 31 July 1974, $33,100,000 of retained earnings is available for the payment of preferred dividends. Dividends on common stock may not be resumed until stockholders' equity is increased by $11,700,000 plus the amount of any dividends paid. This represents an improvement of $11,300,000 from the $23,000,000 restriction on payment of common dividends in existence at 31 July 1973.

Additional Financial Information

Each year GENESCO files with the Securities and Exchange Commission a form 10-K report which contains more detailed financial information. If you would like to receive a copy, please send your request to GENESCO Inc., Route H-8, P.O. Box 941, Nashville, Tennessee 37202.

RETAILING: APPAREL

Retailing

In a difficult retail environment in fiscal 1974, GENESCO's retail companies in total were only slightly behind last year's results. Apparel retailing was up slightly, while footwear retailing dipped. There were numerous bright spots, especially in those areas which had been problems in fiscal 1973. Fiscal 1974 was a difficult year for almost all retailers. The energy crisis restricted shopping during the important holiday season. Rising prices discouraged consumers, and the steady stream of bad economic and political news made them jittery. At the same time, inflation and record breaking interest rates drove the retailer's costs and overhead higher. Very few retailers showed sales increases on a store-by-store basis above the artificial gains caused by inflation.

RETAILING RESULTS*
(IN THOUSANDS)

	1974	1973
SALES	**$441,319**	$438,488
PRETAX EARNINGS	**$ 11,113**	$ 12,458

*continuing operations

Despite adverse conditions, GENESCO's apparel retail companies managed to slightly improve sales and earnings.

Of the 120 men's specialty stores, approximately 100 are located in shopping malls. The sales of these mall stores in particular were affected adversely by the gasoline shortage. Additionally, male shoppers tend to react more to discouraging economic news. Both factors affected GENESCO's men's specialty store sales and earnings.

To strengthen these operations, steps have been taken or are under way. During the year, new managers with extensive merchandising experience were placed in charge of several companies. Additionally, responsibility for a number of stores was shifted to improve merchandising and increase store recognition in specific geographic areas. For example, Hall-Brown, based in Knoxville, Tennessee, took responsibility for the management of three men's stores in Nashville, Tennessee. These stores were previously managed from Cincinnati. With a single name throughout the state, customer recognition should increase. At the same time, with buying and merchandising directed by managers familiar with local tastes, the stores should be able to better serve their customers. This program is being implemented in several areas. There will be a number of changes in store names and shifts in management responsibility, as well as the opening of three new stores.

On the West Coast, Roos/Atkins continued its turn-around course during the year. As a part of this effort, it closed stores in Southern California, thereby significantly reducing expenses and permitting concentration on its traditional market area: Northern California and the Pacific Northwest. The result was that this major West Coast retailer was more profitable than in any year since 1971.

GENESCO's woman's specialty stores, led by Bonwit Teller, showed substantial improvement in earnings. Because the majority of these stores are concentrated in major metropolitan areas, their results were not severely affected by the energy crisis. Henri Bendel and Plymouth Shops both had a record year. Bonwit Teller's improvement resulted from a number of changes in its merchandising and operational organization. Under its new leadership, the thirteen store company became much more merchandise and profit oriented.

Summary

Fiscal 1974 was a sluggish year for retailing, but GENESCO's apparel retailing companies made encouraging gains.

RETAILING: APPAREL RESULTS*
(IN THOUSANDS)

	1974	1973
SALES	**$277,452**	$269,401
PRETAX EARNINGS	**$ 2,723**	$ 2,710

*continuing operations

Apparel retail operations include Henri Bendel, the fashionable New York specialty store whose fur salon is shown above, Baron's on Long Island shown immediate right, and Gilbert's in South Bend, Indiana at far right.

RETAILING: FOOTWEAR

Footwear retail includes both retail stores and leased shoe departments, like the I. Miller department in the Beverly Hills Bonwit Teller store, shown above.

RETAILING: FOOTWEAR RESULTS*
(IN THOUSANDS)

	1974	1973
SALES	**$163,867**	$169,087
PRETAX EARNINGS	**$ 8,390**	$ 9,748

*continuing operations

During the fiscal year, extensive action was taken to improve the results of the women's footwear stores and leased departments. Under provisions of the reserve established last year approximately one-third of these units were closed because they had no future profit potential. At the same time, the organizations were strengthened, marketing programs modified and merchandise improved. As a result, the continuing stores and departments of the three women's footwear retail companies have shown substantial improvement in results.

The men's footwear stores continued to produce good earnings, but individual results were mixed. The medium and higher priced shoe stores showed solid gains in sales and earnings. The popular priced, high fashion stores, on the other hand, were off. Buying interest slackened as high heels and platform shoes peaked, with no clear fashion trend taking their place. At the same time, inflation was taking a larger bite of the consumer's discretionary income. Toward the end of the fiscal year, however, business began to return to previous levels.

The Interstate Shoe company, with stores like Innes, at top left, has made dramatic improvements in results. Johnston & Murphy has recently opened several retail locations, like the one above.

Flagg Bros., shown here on Times Square, continues to be the leader in men's fashion footwear.

Summary
On the whole, Footwear Retail continued to be very profitable, although not as profitable as in the previous year.

FOOTWEAR MANUFACTURING

GENESCO's 23 footwear plants manufacture a whole range of styles, from dress to casual to work boots.

GENESCO's footwear manufacturing and wholesale companies regained momentum and improved overall results for fiscal 1974 despite extremely trying conditions in the first half of the fiscal year.

Manufacturing costs rose sharply as a result of wage and material increases. For example, using a weighted average, material costs in a pair of shoes increased approximately 25% during the year. Despite such increases, during the fall the Price Commission delayed justified price increases so long that most of the orders for the fall '73 season had to be shipped at the old prices. The impact of this on profits was in excess of $1 million. At the same time, the softness in GENESCO's men's popular priced footwear stores mentioned in the Retailing section adversely affected the results of the men's footwear manufacturing plants.

In order to deal with these problems, a major change was made in the footwear organization. In September 1973 all domestic footwear operations, including manufacturing, wholesale, and retail plus the raw materials and components group, were combined into one cohesive unit under one executive and headquartered in one location. These operations and the administrative services which support them are now functioning in a highly effective way.

As a result of these changes and of strong sales development and cost control efforts, the footwear manufacturing and wholesale area was able to catch up and improve earnings for the full year. Volume in the men's plants improved in the second half of the year, and plans were announced to construct a new plant in Pulaski, Tennessee, replacing a smaller facility which has been in operation for many years. The new plant, which will have 80,000 square feet, will be capable of producing 8,000 pairs of men's cement construction shoes per day.

At the wholesale level, GENESCO's branded and volume lines combined produced record sales and earnings. The men's lines, traditionally a strong part of GENESCO's footwear operations, continued to produce outstanding earnings. Johnston & Murphy and Cedar Crest in particular showed excellent increases. Even more significant was the dramatic improvement in the women's branded lines. Led by strong gains in Evins, Cover Girl, and National Vogue, all the women's lines contributed to earnings.

Fluctuations in cattlehide prices continued to affect leather tanning operations in 1974, but by the end of the year, the market stabilized and these operations began to show improvement. The other material and component companies in this group continued to produce fine results as well as providing vital support to the footwear operations.

FOOTWEAR MANUFACTURING RESULTS*
(IN THOUSANDS)

	1974	1973
SALES	**$305,082**	$362,697
PRETAX EARNINGS	**$ 14,362**	$ 13,463

*continuing operations

Top, technology has developed automated equipment for processing many pairs of footwear at one time. Below, soles and heels are injection molded as a single unit.

Summary

Price controls, rising costs, the hide market and other factors hurt the results of these operations, but coordinated efforts under a new organization enabled GENESCO's footwear operations to overcome these problems during the last six months of the fiscal year and produce an increase in earnings for the entire year.

MEN'S APPAREL MANUFACTURING

GENESCO's men's apparel companies turned around in fiscal 1974, coming from a loss of approximately $4 million in fiscal 1973 to a profit of approximately $3 million.

L. Greif and Bro., the men's tailored clothing manufacturer which was a major problem the previous year, sharply reduced its losses in fiscal 1974. First, an extensive program to reduce expenses, overhead, and production capacity was undertaken. While this program continues, Greif has already achieved major reductions, including the closing of two plants during the year. Second, Greif moved to broaden its product line and diversify into sportswear. During the year, the Esquire company merged into Greif, providing a base for sportswear and leisure clothing in addition to Greif's regular tailored clothing. At the same time, Coty Award winner Ralph Lauren was signed to design tailored clothing and sportswear under the "Chaps" label for Greif. French designer Guy La Roche was also signed to create clothing with a European silhouette.

In GENESCO's men's tailored clothing, suit patterns are laid out on a cathode ray tube, cut by a laser beam, and sewed on the latest equipment.

Another of last year's problem companies, Haywood, moved into the black this year. Haywood was reorganized into Harpeth Apparel, a contract manufacturer of fashion jeans and tops, and the Haywood Company, a manufacturer and wholesaler of volume priced men's and boy's clothing.

Other companies which continued to produce fine results include the H-K Corporation (Male slacks and jeans), Baker-Cammack and Camp men's hosiery, and Phoenix Clothes. Phoenix, a manufacturer and wholesaler of men's high fashion tailored clothing, produced record sales and earnings for the second consecutive year. Danté, a manufacturer of branded jewelry and leather goods with unsatisfactory profit performance, was completely reorganized and restructured, with new management placed in control. The Ainsbrooke/Flagg men's underwear and pajamas company consolidated its merchandising, accounting, and executive offices into a single location in Nashville, Tennessee, which is more centrally located to its plants and customers.

MEN'S APPAREL MANUFACTURING RESULTS*
(IN THOUSANDS)

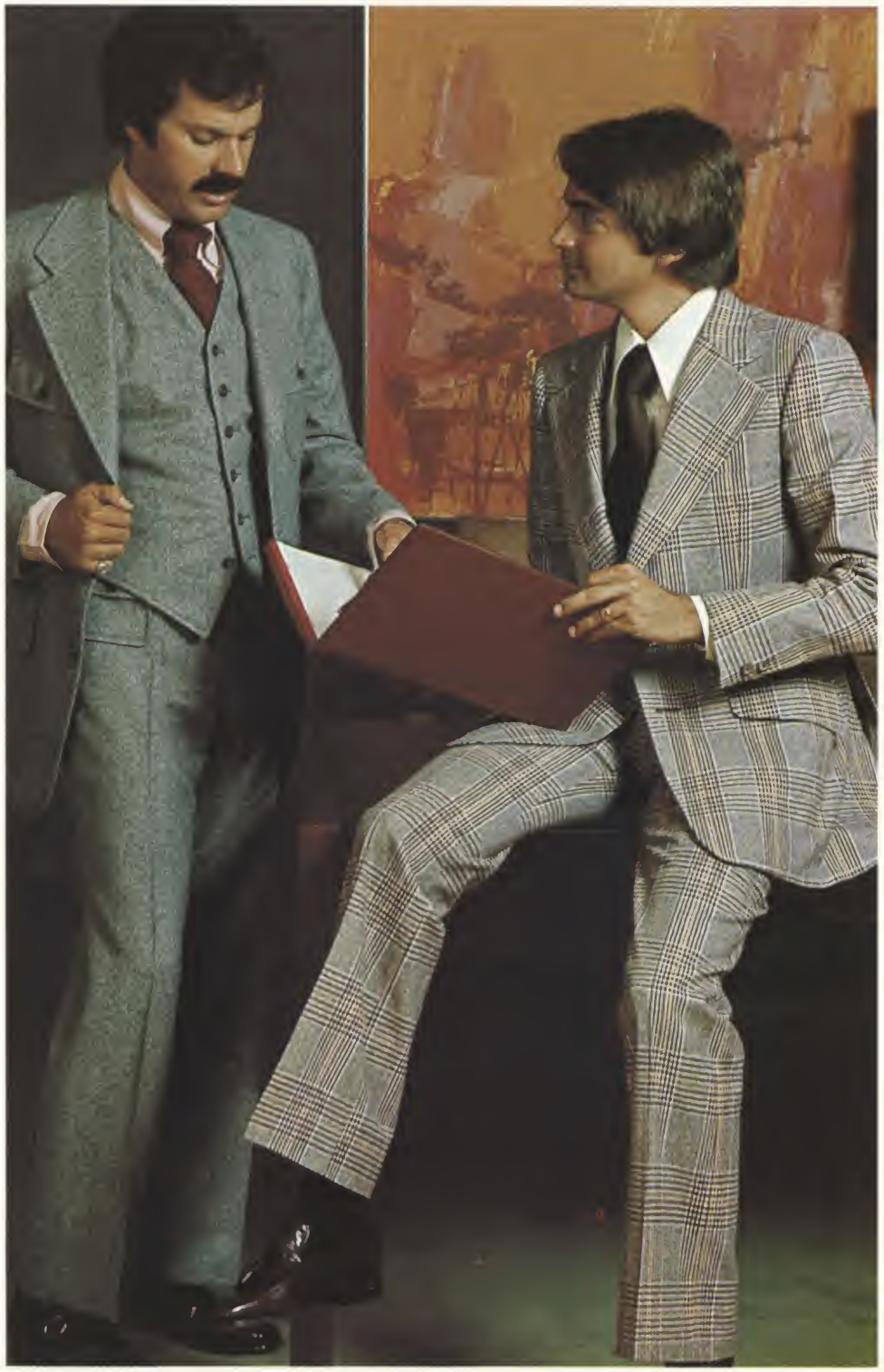
	1974	1973
SALES	**$240,733**	$236,554
PRETAX EARNINGS (LOSS)	**$ 2,841**	$ (4,293)

*continuing operations

strike by the Almagamated
othing Workers union in June hurt
ENESCO and the entire men's
othing industry. Coming during
e important fall shipping season,
e strike not only reduced volume
ut also caused some cancellation
orders due to late deliveries.
is estimated that the strike cost
ENESCO $0.5 million in pretax
arnings. Perhaps even more
gnificant, the settlement reached
ll, over the next three years,
crease the retail price of a man's
it an average of $20 in additional
bor costs alone.
sing costs have put constant
ressure on prices. As a result the
umber of men's clothing units sold
eclined in fiscal 1974 although
ollar sales increased. The new
age settlement almost guarantees
at this trend will continue. To
perate profitably under these
onditions, GENESCO's men's
visions will continue to keep
ventories under tight control and
reduce overhead and other
xpenses wherever possible. There
ill be no major expansion during
is period of high costs and
conomic uncertainty. In short,
ENESCO's strategy is to increase
rofits while sales volume remains
able.

ummary

ajor efforts in last year's problem
ompanies plus continued good
erformance by the strong
ompanies resulted in a swing out
f the red and into the black for
ENESCO's men's apparel
perations.



The result of such technology is distinctive fashions like the Greif three piece suit at left and this Hardy Amies model from Phoenix at right.

WOMEN'S & CHILDREN'S APPAREL

GENESCO's women's and children's apparel companies produced a 43% increase in earnings. This would have been even greater had it not been for the sizeable loss at Lebanon Knitting Mill, whose results are also included in this group. Lebanon, a double knit manufacturer which is GENESCO's only textile company, was profitable in fiscal 1973 but suffered from the substantial price increase in the petroleum based polyester yarns as well as the depressed knit market during fiscal 1974. In order to improve results, Lebanon is redirecting its efforts toward specialty fashion knit fabrics which command higher prices.

In women's dresses and sportswear, GENESCO's budget and moderate priced companies followed the national economy and generally did better than the higher priced lines. Of particular note was the excellent improvement by Kenrose and the record results of Mayfair Sportswear. Susan Thomas/Vivo, a producer of moderate to better priced sportswear, also had an outstanding year. Many of these operations have been experimenting with new divisions established to test fashion and market trends. For example, Berkshire Apparel created the Add'ems division, a line of main floor budget sportswear, to go with its Go-B-Tweens line of half-size missy sportswear. Another example is Girltown's Optimum line of contemporary missy sportswear. By improving and diversifying their product mix, these operations are achieving better gross margins while responding to the needs of retailers.

GENESCO's intimate apparel companies made definite improvement in their results. Formfit Rogers increased its earnings by responding quickly to the demand for molded bras and the boom in loungewear sales. Loungewear has become a fashion item for at-home and party wear. Greensboro, which makes women's and children's sleepwear, again produced excellent gains in sales and earnings. Robby Len continued to turn in excellent results by increasing its penetration of the popular priced swimwear market and launching a new contemporary misses sweater line.

The children's apparel companies also did well in fiscal 1974. The Mary Jane dress division of G. H. & E. Freydberg improved sales and earnings nicely. The division services major chains. Justin Charles was acclaimed by *Earnshaw's Children's and Infant's Review*, an industry magazine, as the number one children's sweater resource for department stores. Girltown received the Sears Symbol of Excellence for the second time.

Just as in the men's apparel companies, the women's and children's operations proceeded cautiously. High interest rates, rising inflation, and a sagging economy made wholesale customers reluctant to commit on their open-to-buy and consumers unable to open their pocketbooks wider. To operate profitably under these circumstances, GENESCO's companies have been under tight controls, experimenting with new ideas when opportunities presented themselves, but not expanding in one area without contracting in another. In short, they have adopted a very conservative posture to minimize the risks of a difficult economy.

Summary

Despite a sizeable loss at Lebano Knitting Mill, where corrective action is being taken, the women and children's operations combined for a hefty increase in pretax earnings in fiscal 1974.

WOMEN'S AND CHILDREN'S APPAREL MFG. RESULTS*

(IN THOUSANDS)

	1974	1973
SALES	**$254,424**	$259,499
PRETAX EARNINGS	**$ 5,017**	$ 3,499

*continuing operations

GENESCO's divisions produce and distribute a wide range of women's and children's apparel, like this dress from Berkshire Apparel and this pantsuit from Susan Thomas.

INTERNATIONAL OPERATIONS

GENESCO's international operations showed an improvement in earnings in fiscal 1974. This was accomplished even though the European companies had a decline in earnings.

International operations have undergone major changes during the past year. A portion of the $60 million reserve established in July 1973 was used to sell or close six European companies. These operations, located in Italy, France, Germany, Holland, Belgium and Portugal, had all shown substantial losses. In addition, GENESCO sold its majority interest in a lingerie and foundation garment manufacturer in Australia on favorable terms.

GENESCO went into Europe several years ago with the expectation of a single, very large market united by the Common Market. This has not proved to be the case. Fashion tastes vary widely from country to country and even from region to region within a single country. There is no homogeneous European apparel market. Moreover, some European governments have instituted many social changes which have resulted in incentive systems being abolished and dramatic increases in wages and social charges. This has resulted in much higher costs and reduced productivity. Only in the areas of fashion leadership in manufacturing and innovative retailing are there opportunities in Europe in the apparel industry. It is in these areas that GENESCO's remaining operations are concentrated.

In addition, during fiscal 1974, the economy in Europe suffered from most of the factors which adversely affected the U.S. economy. Labor disputes and political upheaval dominated the headlines. As a result, GENESCO's European operations showed a loss for the year.

More than offsetting the loss in Europe were the record results of GENESCO's Canadian companies. In Canada, there are four footwear companies and one women's intimate apparel manufacturer. Led by strong gains at General Shoe of Canada and Agnew-Surpass, all five companies contributed to earnings.

Two other important international operations are footwear import and licensing. Imports have been severely limited by the devaluations of the dollar plus the effects of rising inflation overseas. This year, for the first time in many years, the percentage of non-rubber footwear imports sold did not increase. Despite such problems, GENESCO Footwear Import made a substantial profit increase, offering the latest fashion rather than the lowest prices.

GENESCO also licenses a number of its better known brands to be manufactured for sale in international markets. Also included are style information and manufacturing know-how. This effort has been highly successful, and in fiscal 1974 produced record revenues and profits.

Boots are made in a slush-molding process at the British Rubber plant in Lachine, Quebec, Canada.

Summary
Gains in Canadian operations and in importing and licensing more than offset losses in Europe. As a result, GENESCO's international operations produced increased earnings for fiscal 1974.

INTERNATIONAL OPERATIONS RESULTS*
(IN THOUSANDS)

	1974	1973
SALES	**$186,266**	$169,475
PRETAX EARNINGS	**$ 7,087**	$ 6,334

*continuing operations

Agnew-Surpass, whose Aggies store is shown above, is a coast to coast chain of family shoe stores based in Brantford, Ontario, Canada.

Charles Jourdan of France is the leading name in European footwear for men and women.

ACCOUNTANTS' REPORT

Peat, Marwick, Mitchell & Co.
Certified Public Accountants
First American Center
Nashville, Tennessee 37238

The Board of Directors and
Stockholders
GENESCO Inc.:

We have examined the consolidated balance sheets of GENESCO Inc. and consolidated subsidiaries as of 31 July 1974 and 1973 and the related consolidated statements of earnings, earnings retained in business, additional paid-in capital and changes in financial position for the years then ended. We have also examined the consolidated balance sheets of GENESCO Financial Corporation as of 31 July 1974 and 1973. Our examinations were made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the aforementioned consolidated financial statements present fairly the financial position of GENESCO Inc. and consolidated subsidiaries and of GENESCO Financial Corporation at 31 July 1974 and 1973 and the results of operations and the changes in financial position of GENESCO Inc. and consolidated subsidiaries for the years then ended, in conformity with generally accepted accounting principles applied on a consistent basis.

Peat, Marwick, Mitchell & Co.

21 August 1974

SUMMARY OF ACCOUNTING POLICIES

Basis of consolidation: The consolidated financial statements include the accounts of the company and all domestic and Canadian subsidiaries, except GENESCO Financial Corporation. Nonconsolidated subsidiaries and affiliates, principally foreign companies, are carried at cost adjusted for undistributed earnings or losses since acquisition. The company's equity in income or losses related to these subsidiaries is included in the consolidated earnings statement after provision for income taxes where appropriate.

The income before taxes of GENESCO Financial Corporation is included in the consolidated earnings statement as a reduction of interest expense with the related income tax included in income taxes. The combined results of all other nonconsolidated subsidiaries are included as a single item in the consolidated earnings statement, except in 1973 where those subsidiaries which had been or were planned to be disposed of were reclassified into loss from discontinued operations.

Inventories: Inventories are stated at the lower of approximate average cost or market determined, in wholesaling and manufacturing companies, principally on the first-in, first-out method. Inventories of retail companies are determined by the retail method.

Plant, equipment and lease rights: Plant and equipment carried at cost, including lease rights, is depreciated or amortized over the estimated useful life of the related assets. Depreciation and amortization expense is computed principally by the straight line method.

Income taxes: Deferred income taxes are provided to recognize the effect of timing differences between financial statement and income tax accounting for items such as depreciation, sale and leaseback transactions, reserves for lease commitments on closed stores, profits on installment sales and deductions related to accounts receivable.

Federal income taxes are reduced by the investment tax credit using the flow-through method.

Amortization of intangibles: The excess of cost over equity of purchased companies reflected in the consolidated financial statements is being amortized over a forty year period. Gains from the sale and leaseback of plant and equipment are being amortized over the lives of the respective leases.

Translation of foreign currencies: The financial statements of Canadian and nonconsolidated foreign subsidiaries and affiliates are translated into U.S. dollar equivalents applying exchange rates in effect at year end to current assets and liabilities and historical rates to noncurrent assets and liabilities.

Income and expense accounts are translated at rates prevailing during the year. Translation gains are deferred indefinitely unless offset by related losses, in which case the excess is charged to income currently. Translation adjustments originating during the two years resulted in a charge to the reserve of $1,743,000 in 1974 and a credit to the reserve of $26,000 in 1973. Had long-term liabilities been translated at year end rates, long-term debt would have increased by $3,595,000 in 1974 and $5,940,000 in 1973. There are no long-term receivables involving foreign currencies in the consolidated balance sheet. Revaluation reserves included in deferred income credits in the consolidated balance sheet totaled $3,341,000 at 31 July 1974.

Retirement plans: The company funds pension costs accrued as determined by its independent actuaries.

Earnings per common share: Primary earnings per share are computed by dividing net earnings after deducting preferred dividends by average common shares and common share equivalents outstanding. In the computation of fully diluted earnings per common share, earnings and average common shares are appropriately adjusted for outstanding dilutive securities.

CONSOLIDATED EARNINGS

Year ended 31 July	1974	1973
Net sales	**$1,184,727,000**	$1,410,503,000
Discontinued operations	**—0—**	185,953,000
Net sales from continuing operations	**1,184,727,000**	1,224,550,000
Cost of sales	**819,867,000**	855,320,000
Selling, administrative and general expenses	**302,939,000**	321,049,000
Equity in losses of nonconsolidated companies	**2,547,000**	1,547,000
Interest expense	**24,768,000**	17,299,000
	1,150,121,000	1,195,215,000
Earnings from continuing operations before taxes	**34,606,000**	29,335,000
Minority interests	**204,000**	337,000
Federal, state and Canadian income taxes	**17,274,000**	14,507,000
Earnings from continuing operations after taxes	**17,128,000**	14,491,000
Operating loss from discontinued operations net of taxes	**—0—**	(11,771,000)
Earnings before extraordinary loss	**17,128,000**	2,720,000
Extraordinary loss net of taxes	**—0—**	(55,623,000)
Net earnings (loss)	**$ 17,128,000**	$ (52,903,000)
EARNINGS (LOSS) PER COMMON SHARE		
PRIMARY		
Continuing operations	**$1.07**	$ .85
Discontinued operations	**—0—**	(.94)
Before extraordinary loss	**1.07**	(.09)
Extraordinary loss	**—0—**	(4.45)
Net	**$1.07**	$(4.54)
FULLY DILUTED		
Continuing operations	**$ .99**	$ .80
Discontinued operations	**—0—**	(.89)
Before extraordinary loss	**.99**	(.09)
Extraordinary loss	**—0—**	(4.45)
Net	**$ .99**	$(4.54)

This page should be read in conjunction with the Summary of Accounting Policies on page 20 and the Notes to the Consolidated Financial Statements on pages 26, 27, 28 and 29.

CONSOLIDATED BALANCE SHEET 31 July	**1974**	1973
Assets		
CURRENT ASSETS:		
Cash	**$ 9,192,000**	$ 12,475,000
Receivables	**39,711,000**	44,093,000
Inventories	**278,549,000**	276,474,000
Fixed assets held for resale	**8,466,000**	12,567,000
Prepaid expenses	**679,000**	734,000
Future tax benefits	**22,000,000**	21,500,000
TOTAL CURRENT ASSETS	**358,597,000**	367,843,000
Investments and long-term receivables	**8,771,000**	10,120,000
Future tax benefits	**29,369,000**	41,172,000
Plant, equipment and lease rights	**146,027,000**	141,654,000
Debt discount	**667,000**	887,000
Investment in excess of equity	**12,807,000**	11,873,000
TOTAL ASSETS	**$556,238,000**	$573,549,000
Liabilities and Stockholders' Equity		
CURRENT LIABILITIES:		
Unsecured short-term borrowing agreements	**$ —0—**	$ 5,340,000
Accounts and drafts payable, accrued expenses, taxes and current portion of long-term debt	**102,987,000**	93,087,000
Provision for discontinued operations	**8,419,000**	25,609,000
TOTAL CURRENT LIABILITIES	**111,406,000**	124,036,000
Long-term debt	**107,860,000**	113,013,000
Lease obligations	**73,735,000**	76,225,000
Minority interests	**402,000**	1,430,000
Provision for discontinued operations	**17,223,000**	20,728,000
Deferred income taxes	**3,849,000**	5,838,000
Deferred credits to income	**11,875,000**	11,167,000
Stockholders' equity	**229,888,000**	221,112,000
TOTAL LIABILITIES & STOCKHOLDERS' EQUITY	**$556,238,000**	$573,549,000

This page should be read in conjunction with the Summary of Accounting Policies on page 20 and the Notes to the Consolidated Financial Statements on pages 26, 27, 28 and 29.

CONSOLIDATED STOCKHOLDERS' EQUITY 31 July

	1974	1973
$4.50 Cumulative Convertible Preferred	$ 1,995,000	$ 1,995,000
Subordinated Cumulative Convertible Preference		
$4.25 Series A	2,000	2,000
$6.00 Series B	293,000	298,000
$6.00 Series C	284,000	318,000
Subordinated Serial Preferred		
$2.30 Series 1	74,000	74,000
$2.40 Series 2	8,826,000	11,035,000
$4.75 Series 3	169,000	169,000
$4.75 Series 4	110,000	110,000
$4.75 Series 5	193,000	197,000
mployees' Subordinated Convertible Preferred	1,358,000	1,363,000
otal preferred	13,304,000	15,561,000
Common stock at $1 par	12,964,000	12,958,000
Additional paid-in capital	132,501,000	134,376,000
Earnings retained in business	101,509,000	88,607,000
	260,278,000	251,502,000
Less treasury stock, at cost	30,390,000	30,390,000
TOTAL STOCKHOLDERS' EQUITY	$229,888,000	$221,112,000

CONSOLIDATED EARNINGS RETAINED IN BUSINESS

Year ended 31 July

	1974	1973
Balance at beginning of year	$ 88,607,000	$151,778,000
Net earnings (loss)	17,128,000	(52,903,000)
Common dividends paid	—0—	(6,362,000)
Preferred dividends paid	(3,721,000)	(3,906,000)
Redemption of preferred stock	(505,000)	—0—
BALANCE AT END OF YEAR	$101,509,000	$ 88,607,000

CONSOLIDATED ADDITIONAL PAID-IN CAPITAL

Year ended 31 July

	1974	1973
Balance at beginning of year	$134,376,000	$136,187,000
Sales price or fair market in excess of par or stated value of common and preferred shares issued, net of expenses	(155,000)	1,336,000
Principal amount of notes issued and stated value of preferred stock converted in excess of preferred stock exchanged and common shares issued	(1,720,000)	(3,147,000)
BALANCE AT END OF YEAR	$132,501,000	$134,376,000

This page should be read in conjunction with the Summary of Accounting Policies on page 20 and the Notes to the Consolidated Financial Statements on pages 26, 27, 28 and 29.

CONSOLIDATED CHANGES IN FINANCIAL POSITION

Year ended 31 July	1974	1973
SOURCE OF WORKING CAPITAL:		
Earnings before extraordinary loss	**$ 17,128,000**	$ 2,720,000
Depreciation and amortization of plant and equipment	**10,237,000**	12,428,000
Amortization of lease rights	**6,308,000**	6,382,000
Amortization of debt discount and changes in deferred taxes	**(1,769,000)**	2,898,000
Charges to earnings not requiring funds	**589,000**	1,770,000
Working capital provided from operations	**32,493,000**	26,198,000
Reserve items affecting working capital	**(10,167,000)**	(12,943,000)
Long-term debt issued	**1,833,000**	3,210,000
Plant and equipment sales	**3,417,000**	3,027,000
Change in future tax benefits	**15,121,000**	(3,457,000)
Additions to lease obligations capitalized	**12,200,000**	14,238,000
Other sources of working capital	**17,000**	694,000
	$ 54,914,000	$ 30,967,000
USE OF WORKING CAPITAL:		
Dividends paid	**$ 3,721,000**	$ 10,267,000
Treasury stock acquired	**—0—**	2,364,000
Redemptions and conversions of preferred stock	**4,631,000**	1,783,000
Long-term debt paid or charged against working capital	**6,987,000**	7,604,000
Payments charged to lease obligations	**14,690,000**	9,887,000
Other changes in investments and long-term receivables	**853,000**	11,238,000
Plant and equipment purchases, including lease rights capitalized	**17,699,000**	23,104,000
Acquisition of goodwill and minority interests	**2,949,000**	(55,000)
Increase (Decrease) in working capital	**3,384,000**	(35,225,000)
	$ 54,914,000	$ 30,967,000
Increase (Decrease) in working capital:		
Cash	**$ (3,283,000)**	$(10,315,000)
Receivables	**(4,382,000)**	(8,871,000)
Inventories	**2,075,000**	(13,687,000)
Fixed assets held for resale	**(4,101,000)**	12,567,000
Prepaid expenses	**(55,000)**	(1,308,000)
Future tax benefits	**500,000**	6,000,000
Total current assets	**(9,246,000)**	(15,614,000)
Current liabilities	**12,630,000**	(19,611,000)
Working capital	**$ 3,384,000**	$(35,225,000)

This page should be read in conjunction with the Summary of Accounting Policies on page 20 and the Notes to the Consolidated Financial Statements on pages 26, 27, 28 and 29.

GENESCO FINANCIAL CORPORATION AND SUBSIDIARY

Consolidated Balance Sheet 31 July

Assets	**1974**	1973
Cash	**$ 597,000**	$ 508,000
Accounts receivable purchased from GENESCO less contract reserve withheld	**128,184,000**	116,633,000
Notes receivable—Trustee of GENESCO employee stock purchase plans	**8,000,000**	7,910,000
Notes receivable—other	**2,167,000**	4,697,000
Prepaid interest	**1,568,000**	741,000
Investments and other assets	**370,000**	407,000
Deferred long-term note expense	**383,000**	423,000
	$141,269,000	$131,319,000
Liabilities and Stockholders' Equity		
Notes payable to banks	**$ 68,550,000**	$ 62,150,000
Accrued liabilities	**3,166,000**	1,574,000
Long-term debt		
8.25% Senior Notes with annual installments of $4,000,000 beginning 31 March 1979	**40,000,000**	40,000,000
8.75% Senior Subordinated Notes with annual installments of $1,000,000 beginning 31 March 1979	**10,000,000**	10,000,000
Stockholders' equity	**19,553,000**	17,595,000
	$141,269,000	$131,319,000

This page should be read in conjunction with the Summary of Accounting Policies on page 20 and the Notes to the Consolidated Financial Statements on pages 26, 27, 28 and 29.

(1) Accounts Receivable and Inventories

See Financial Review for detail.

(2) Investments and Long-Term Receivables

	1974	1973
Investments in nonconsolidated subsidiaries and affiliates	**$4,927,000**	$ 7,404,000
Other investments, at cost	**3,658,000**	2,692,000
Employees' secured stock purchase accounts	**186,000**	24,000
TOTALS	**$8,771,000**	$10,120,000

(3) Plant, Equipment and Lease Rights

	1974	1973
Land	**$ 1,989,000**	$ 1,201,000
Buildings and building equipment	**9,691,000**	8,924,000
Machinery, furniture and fixtures	**89,468,000**	91,071,000
Construction in process	**1,347,000**	3,353,000
Improvements to leased property	**53,615,000**	45,777,000
Lease rights capitalized	**105,888,000**	93,864,000
	261,998,000	244,190,000
Less accumulated depreciation and amortization	**115,971,000**	102,536,000
TOTALS	**$146,027,000**	$141,654,000

(4) Long-Term Debt

	1974 Current	1974 Noncurrent
4.75% convertible subordinated note dated July 1962, due 1982 with annual payments of $25,000; convertible into common stock at $25.20 per share	$ 25,000	$ 425,000
4.875% obligation dated October 1970, due 1977 with annual payments of $1,238,000	1,238,000	2,477,000
5.00% notes dated July 1964, due 1984 with annual payments of $2,000,000	2,000,000	30,000,000
5.25% notes dated February 1961, due 1981 with annual payments of $938,000	938,000	9,682,000
7.25% Deutsch Mark (DM13,000,000) note payable to foreign banks dated July 1969, due July 1976 with annual payments of DM7,000,000	2,718,000	1,500,000
7.50% Deutsch Mark (DM20,000,000) notes payable to foreign banks dated July 1969, due 1976	—0—	5,000,000
9.25% notes dated November 1970, due 1976	—0—	50,000,000
6.50% convertible subordinated debentures (series A) due 1987; convertible into common stock at $41.67 per share	—0—	1,069,000
6.50% convertible subordinated debentures (series B) due 1987; convertible into common stock at $45.45 per share	—0—	3,901,000
Notes payable incurred by companies prior to acquisition due in varying amounts to 1988 at various interest rates, the major portion of which are from 4.50% to 8.00%	936,000	3,806,000
TOTAL	$7,855,000	$107,860,000

The company guarantees all payments on long-term notes of $4,573,000 and convertible debentures of $12,383,000 of its nonconsolidated foreign finance subsidiaries. The guarantee of the convertible debentures is subordinated to the prior payment in full of all present and future senior indebtedness. The company is in compliance with all the restrictive covenants contained in its various loan agreements and indentures. Under the terms of the most restrictive covenants regarding the payment of cash dividends, $33,100,000 of retained earnings is available at 31 July 1974 for the payment of preferred dividends. Dividends on common stock may not be resumed until stockholders' equity is increased by $11,700,000 plus the amount of any dividends paid.

(5) Income Taxes

Operating loss carryforwards which will be used to offset taxes otherwise payable on profits in the future have been recognized as assets in the consolidated balance sheet. The majority of these carryforward losses expire during the years 1977-1980 and management feels their utilization is assured beyond a reasonable doubt.

Income taxes in the consolidated earnings statement are as follows:

	1974	1973
Income taxes on:		
Earnings from continuing operations	**$17,274,000**	$14,507,000
Losses from discontinued operations	**—0—**	(11,516,000)
Earnings before extraordinary loss	**$17,274,000**	$ 2,991,000

Income taxes on earnings before extraordinary loss is made up of the following components:

	1974	1973
Current tax expense:		
U.S. Federal	**$14,075,000**	$ (4,285,000)
Canadian	**3,723,000**	2,630,000
State	**1,476,000**	1,946,000
Deferred U.S. Federal	**(2,000,000)**	2,700,000
TOTALS	**$17,274,000**	$ 2,991,000

The most significant items included in the deferred U.S. Federal tax provision relate to reserves for lease commitments on closed stores and depreciation totalling $1,881,000 in 1974 and $2,948,000 in 1973.

The effective tax rate on earnings before extraordinary loss is 49.9% in 1974 and 49.5% in 1973. The items creating the differences between these effective rates and the 48% Federal statutory rate are as follows:

	1974	1973
Provision for taxes at 48%	**$16,611,000**	$ 2,903,000
Add (Deduct) tax effect on:		
Amortization of goodwill	**222,000**	(1,265,000)
Amortization of deferred sale/lease-back gains	**(114,000)**	(327,000)
Equity in losses of nonconsolidated companies	**1,223,000**	1,550,000
Other	**(800,000)**	208,000
Variation between Canadian and U.S. tax rate	**(62,000)**	(413,000)
Investment tax credits	**(574,000)**	(677,000)
State taxes, net of Federal tax benefit	**768,000**	1,012,000
TOTAL	**$17,274,000**	$ 2,991,000

As stated in prior years, the company has received reports from the Internal Revenue Service on the results of their examination of the company's and its subsidiaries' tax returns for fiscal years 1964 through 1969.

The company has held extensive discussions with the IRS, but has been unable to reach any agreement. Along with the substantial proposed adjustments, the IRS states that they have not been able to make an exact determination of the net amount of the deficiencies that would be claimed against the company and its subsidiaries as a group due to duplications in tax liabilities asserted. The company, continuing to rely on advice of tax counsel, is satisfied that, while a number of complex issues have been raised, any tax deficiencies which may ultimately be determined will not materially affect its financial position and results of operations.

(6) Rentals and Lease Commitments

For purposes of the following disclosure, the company has made a distinction in leases of its continuing operations between non-capitalized "financing" lease arrangements, defined as leases covering 75% or more of the estimated useful life of the property or which require payments over the lease term which provide the lessor with recovery of his investment plus interest, and "other" leases.

Total rental expense for the two years ended 31 July was as follows (in thousands):

	1974	1973
Financing Leases:		
Minimum Rentals	**$ 7,197**	$ 6,941
Contingent Rentals	**459**	486
Sublease Rentals	**(260)**	(221)
	7,396	7,206
Other Leases:		
Minimum Rentals	**31,645**	31,983
Contingent Rentals	**2,542**	3,501
Sublease Rentals	**(866)**	(1,157)
	33,321	34,327
TOTAL	**$40,717**	$41,533

Minimum non-cancellable long-term lease commitments (reduced by sublease rentals) are payable in future periods as follows:

Fiscal Year	Financing Leases	Other Leases	Net Rental Commitment
1975	$ 6,472	$19,167	$25,639
1976	6,352	17,275	23,627
1977	6,103	14,940	21,043
1978	5,630	13,289	18,919
1979	5,521	10,589	16,110
1980-1984	23,978	31,517	55,495
1985-1989	16,445	15,240	31,685
1990-1994	3,883	6,926	10,809
After 1994	140	553	693

In addition to fixed annual rentals, some leases provide that the company will pay real estate taxes and other expenses and in certain cases additional rentals based on sales. Renewal options exist for most long-term leases.

The present values of minimum lease commitments under noncapitalized financing leases at 31 July are as follows:

	1974	1973
Retail real property	**$36,676**	$38,936
Wholesale & manufacturing real property	**15,947**	16,829
Other	**2,164**	2,725
	54,787	58,490
Present value of sublease rentals	**(1,595)**	(1,695)
TOTAL	**$53,192**	$56,795

The range and weighted average interest rates used in the computation of the above present values are as follows:

	Range	Average
Retail real property	2.0-8.5%	5.0%
Wholesale & manufacturing real property	1.2-6.5%	5.1%
Other	5.0-7.0%	5.6%
Present value of sublease rentals	3.5-6.5%	5.0%

If such financing leases were capitalized the effect on net earnings would be less than 1%.

(7) Retirement Plans

The GENESCO pension trust owns several corporations, some of which in turn own residual rights to certain properties leased to the company's S. H. Kress variety store chain. The residuals are taken into consideration by the company's independent actuaries in arriving at current annual pension cost. For fiscal 1974, the company's actuaries have adjusted the residual values to reflect action taken by GENESCO in the closing and disposition of Kress locations identified during last fiscal year as unprofitable. This reduction in residual values combined with the decline in market value of equity securities held by the pension trust resulted in an increase in pension expense charged to earnings from $625,000 in 1973 to $2,210,000 in 1974. There was no unfunded past service liability at 31 July 1974.

(8) Stockholders' Equity

Distinguishing characteristics of preferred and preference stock

	Shares Authorized	Shares Issued at 31 July 1974	Shares Issued at 31 July 1973	Per Share Stated Value	Per Share Liquidation Value	Per Share Redemption Price	Common Convertible Ratio
$4.50 Cumulative Convertible Preferred	82,368	19,949	19,949	$100.00	$100.00	$102.50	3.75000
Subordinated Cumulative Convertible Preference							
$4.25 Series A	68,943	600	600	3.00	100.00	100.00	Non Convert.
$6.00 Series B	161,981	122,173	124,235	2.40	100.00	104.00	2.40000*
$6.00 Series C	269,291	129,001	144,521	2.20	100.00	105.00	2.20000*
Subordinated Serial Preferred							
$2.30 Series 1	131,826	89,337	89,337	.83	42.00	42.00	.83330
$2.40 Series 2	395,626	220,643	275,884	40.00	45.00	45.00	Non Convert.
$4.75 Series 3	105,875	80,058	80,058	2.11	100.00	105.00	2.10526
$4.75 Series 4	103,000	65,648	65,648	1.67	100.00	104.00	1.51510
$4.75 Series 5	122,500	119,871	122,287	1.61	100.00	100.00	1.61290
Subordinated Cumulative Preferred	5,000,000	105	105	1.00	30.00	30.00	Non Convert.
Employees' Subordinated Convertible Preferred	5,000,000	1,358,128	1,363,537	1.00	30.00	Non Redeem.	1.00000

*Each share is also convertible into a $100 convertible subordinated debenture bearing 6.50% interest.

The total liquidating value of preferred stocks was $98,922,000 at 31 July 1974 and $102,012,000 at 1973.

At 31 July 1974 there were 20,000,000 Common shares authorized and 12,963,720 issued compared to 12,958,311 issued at 31 July 1973. Common shares reserved at 31 July 1974 for conversion of senior securities totaled 2,596,624, employee stock plans 1,159,505 and 55,000 for issuance contingent upon earnings of an acquired company. Employees' preferred reserved shares totaled 1,019,768.

Provisions of the Subordinated Serial Preferred Stock, Series 2 require the company to place approximately $2,500,000 in a sinking fund on or before each 1 January of calendar years 1975-1978, for redemption during the calendar year of 20% of the shares of Series 2 stock originally issued.

Provisions of the Subordinated Serial Preferred Stock, Series 5 require the company to offer during November of 1974-1978 to redeem, on the succeeding 31 December, 20% of the shares of Series 5 stock originally issued. Approximately $2,500,000 annually will be required to accomplish such redemptions.

Changes in the shares of the company's capital stock

Year ended 31 July 1974 and 1973

	Common Issued	Common Treasury	Preferred Employees'	Preferred Other
Balance at 31 July 1972	12,649,978	571,019	1,379,547	954,531
Poolings of interests*	155,992	(26,000)	—0—	—0—
Purchases	—0—	1,199	—0—	—0—
Conversion of securities	16,404	—0—	(16,010)	(31,907)
Employee options and purchase plans	106,175	—0—	—0—	—0—
Balance at 31 July 1973	12,928,549	546,218	1,363,537	922,624
Poolings of interests*	29,762	(7,760)	—0—	—0—
Balance at 31 July 1973 restated	12,958,311	538,458	1,363,537	922,624
Redemptions	—0—	—0—	—0—	(57,657)
Conversion of securities	5,409	—0—	(5,409)	(17,582)
Employee options and purchase plans	—0—	(1,293)	—0—	—0—
	12,963,720	537,165	1,358,128	847,385
Less treasury stock	537,165		301,677	1,860
Outstanding at 31 July 1974	12,426,555		1,056,451	845,525

*Incentive shares issued to former stockholders of companies acquired in prior years.

(9) Employee Stock Plans

The company offers to all eligible employees, under the savings fund employee stock purchase plan, options to purchase shares of its common stock two years subsequent to date of grant.

Transactions under the savings fund-employee stock purchase plan during each year and shares reserved for possible future options are summarized below:

	1974	1973
Options outstanding beginning of year	**163,494**	362,175
Options granted	**—0—**	512,122
Options exercised	**—0—**	(106,175)
Options terminated	**(124,520)**	(604,628)
Options outstanding end of year	**38,974**	163,494
Shares reserved for possible future options	**1,120,531**	996,011
Total shares reserved	**1,159,505**	1,159,505
Option price or range of outstanding options	**$15.58**	$15.58-$30.97

(10) Extraordinary Loss

The fiscal 1973 extraordinary loss is made up of:

Provision for estimated losses on sale, restructure or discontinuance of operating divisions	$80,745,000
Losses on other operating divisions discontinued	2,499,000
Gains on divisions sold	(6,148,000)
	77,096,000
Taxes	21,473,000
Net	$55,623,000

(11) Pending Legal Proceedings

The company, certain of its present or former directors and officers, and its independent certified public accountants are defendants in an alleged "class" action filed in the United States District Court for the Southern District of New York by two stockholders of the company. In general, the complaint charges that, since 1966, defendants have published false and misleading financial statements and reports in violation of federal securities laws and, as a result, the price of the company's common stock was inflated to an artificially high level. The complaint seeks damages in an unspecified amount. The defendants answered the complaint denying the substantive allegations, and filed a motion seeking a determination that the action could not properly proceed as a "class" action. On 28 June 1974, that motion was granted and the action, if it proceeds, may only do so on behalf of the named plaintiffs.

In February 1974, a stockholder of the company commenced another purported "class" action in the United States District Court for the Southern District of New York. The defendants, many of the allegations and the relief requested are substantially similar to those contained in the complaint referred to above. The defendants have answered this complaint by denying its substantive allegations and asserting certain affirmative defenses.

Another action against substantially the same defendants has been filed by a stockholder and former employee of the company in the United States District Court for the Northern District of California which charges that, since at least prior to 1965, defendants have engaged in violations of federal securities laws in connection with various financial reports and releases published by the company as well as in connection with the 1966 agreement under which the company acquired the assets of Roos/Atkins, a chain of retail apparel stores operating principally in Northern California, in which the plaintiff had a substantial interest. This complaint seeks damages in an undetermined amount as well as rescission of the 1966 agreement. The company has denied the charges in the complaint and has asserted certain affirmative defenses.

In April 1974, the United States Court of Appeals for the Fifth Circuit affirmed in part and reversed in part a lower court dismissal of a complaint filed by certain shareholders of Leeds Shoes Inc. against GENESCO Financial Corporation, GENESCO, certain of its employees, and others claiming violations of the federal securities laws. The suit claims the company is liable as a "controlling person" of Leeds Shoes Inc., within the meaning of the federal securities laws. The suit seeks damages in the amount of approximately $20,000,000. In light of the Court of Appeals' holding that plaintiffs have stated some claims sufficient to require the defendants to answer, the company has responded to the complaint, denying its substantive allegations and asserting various affirmative defenses.

While the ultimate disposition of the above actions is not presently determinable, the company considers the charges in each of the actions to be without merit.

The company is a co-defendant in an antitrust action filed by the United States Department of Justice which alleges that the acquisition by Blue Bell, Inc. of the assets of the company's Hayes Company Division violated the Clayton Act and seeks divestiture by Blue Bell of the assets to a third party or, alternatively, the return of the assets to the company. The Court has held that the company did not violate the Clayton Act; however, the Court has retained the company as a defendant for the purpose of possible relief in the event the government prevails against Blue Bell. The case has been tried but a decision has not been rendered by the Court. The company believes it will not be compelled to reacquire the assets of the Hayes Company Division.

FIVE YEAR SUMMARY

	1974	1973	1972	1971	1970
Net Sales	**$1,184,727**	1,410,503	1,395,403	1,311,549	1,282,598
Net Sales— Continuing Operations	**$1,184,727**	1,224,550	1,158,933	1,064,956	1,004,339
Earnings Before Taxes— Continuing Operations	**$34,606**	29,335	36,797	56,113	58,088
Income Taxes— Continuing Operations	**$17,274**	14,507	16,487	25,299	25,743
Earnings After Taxes— Continuing Operations	**$17,128**	14,491	20,137	30,598	32,076
Net Earnings (Loss)	**$17,128**	(52,903)	8,904	16,093	23,192
Depreciation and Amortization (including Lasts, Dies and Patterns)	**$16,545**	18,810	19,601	17,920	15,491
Number Stockholders	**52,000**	55,000	51,000	49,000	48,000
Average Shares Common Stock Outstanding	**12,424,000**	12,406,000	12,228,000	12,096,000	11,826,000
Primary Earnings Per Common Share Continuing Operations Net	 **$1.07** **$1.07**	 .85 (4.54)	 1.31 .41	 2.21 1.04	 2.40 1.66
Dividends Per Common Share	**—0—**	.51	1.70	1.70	1.65
Year's Price Range Per Common Share	**$10⅛-4½**	18⅝-5⅜	36-15	39¼-20	32½-20¼
Long-Term Debt	**$107,860**	113,013	117,408	123,945	112,864
Working Capital	**$247,191**	243,807	279,032	310,807	325,676
Stockholders' Equity	**$229,888**	221,112	288,430	305,161	312,429

Figures for 1970-1973 have been restated, where appropriate, for poolings of interests, an accounting principles change and discontinued operations.
All dollar figures are in thousands except amounts per share.

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Fenn-Feinstein
Phoenix Clothes
Griffon
Hardy Amies of London
Esquire Sportswear
Male
Spyder Mark
Remuda Western Wear
Tiffany Slacks
Chaps by Ralph Lauren
Guy LaRoche

WOMEN'S CLOTHING
Beverly Paige
Outlook
Michele of Miami
Calendar
Optimum
Whistlestop
Gingertree
Parkshire Original
Berkshire B-Tween
Hob-Nobber
City Scene
Go-B-Tweens
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Susan Thomas
Adele Martin
Dalani
Vivo
Rona
Gordon
Kenrose
Wildflower
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Kenneth Rose
Plaza South
Sunshine Alley

CHILDREN'S CLOTHING
Girltown
Patricia Ann
Mary Jane
Justin Charles
New York Mackintosh
Greencraft
Penny Walker
Great Things
After Hours

MEN'S UNDER APPAREL
Bodyguard
Regatta
Ainsbrooke

WOMEN'S INTIMATE APPAREL & SLEEPWEAR
Formfit Rogers
Rutledge
Greensboro

WOMEN'S SWIM WEAR
Robby Len Swimfashions
Swan Original
Elle

RAINWEAR
New York Mackintosh

MEN'S HOSIERY
Camp Hosiery
D'Orsay

MEN'S ACCESSORIES
Danté
Shields
Don Loper

MEN'S FOOTWEAR
Johnston & Murphy
Jarman
Frank Bros.
Fortune
Douglas
John Ritchie
Cedar-Crest
Sandy McGee
Renegades
Adonis
Charles Jourdan Monsieur

WOMEN'S FOOTWEAR
Evins
Jourdan Design
Charles Jourdan
Christian Dior
Pierre Cardin
Miss Club
Easy Street
Cover Girl
National Vogue
Charm Step
Domani
Nadia
Riviera

CHILDREN'S FOOTWEAR
Storybook
Classmate (Canada)

GENESCO Store Names Include:

WOMEN'S APPAREL
Henri Bendel
Bonwit Teller
Gidding-Jenny
Harold's
Plymouth Shops

MEN'S APPAREL
Whitehouse & Hardy
Frank Bros.
Roger Kent
Burkhardt's
Burkhardt-Davidson's
Baron's
Graves-Cox

MEN'S AND WOMEN'S APPAREL
Roos/Atkins
McFarlin's
Gilbert's
L. Strauss
Hall-Brown
Tate-Brown

MEN'S FOOTWEAR
Jarman
Flagg Bros.
John Hardy
Johnston & Murphy

WOMEN'S FOOTWEAR
I. Miller
Allen's
Holiday-Wise
Charles Jourdan
Miller Eye
Manss

FAMILY FOOTWEAR
Agnew-Surpass
Aggies
Innes
Sommer & Kaufmann
Bell Bros.
Reward
Montreal Shoe Stores
Dexter Shoe Stores
Brittain's
Guarantee Shoe Stores
Berland

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